

Beaver Creek Cooperative Telephone Company and Subsidiary

Consolidated Financial Statements
with Supplemental Information

Years Ended December 31, 2016 and 2015



BEAVER CREEK COOPERATIVE TELEPHONE COMPANY and SUBSIDIARY
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Beaver Creek Cooperative Telephone Company and Subsidiary
Oregon City, Oregon

We have audited the accompanying consolidated financial statements of Beaver Creek Cooperative Telephone Company (an Oregon cooperative corporation) and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Beaver Creek Cooperative Telephone Company and Subsidiary as of December 31, 2016 and 2015, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules I-III are presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating financial information has been subject to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Aldrich CPAs + Advisors LLP

Salem, Oregon
April 10, 2017

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY**Consolidated Balance Sheets**

December 31, 2016 and 2015

ASSETS	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash	\$ 7,415	\$ 70,250
Accounts receivable, less allowance for doubtful accounts of \$5,000 at December 31, 2016 and 2015	726,541	775,935
Materials and supplies	148,874	121,112
Prepaid expenses	<u>79,253</u>	<u>85,440</u>
 Total Current Assets	 <u>962,083</u>	 <u>1,052,737</u>
 Other Assets and Investments:		
Investments	865,877	942,575
Other assets	<u>800</u>	<u>1,200</u>
 Total Other Assets and Investments	 <u>866,677</u>	 <u>943,775</u>
 Property, Plant, and Equipment:		
Regulated plant in service	20,579,576	20,589,035
Nonregulated plant in service	<u>21,953,482</u>	<u>21,677,401</u>
	42,533,058	42,266,436
Less accumulated depreciation	<u>30,146,815</u>	<u>28,798,439</u>
 Property, Plant, and Equipment, net	 <u>12,386,243</u>	 <u>13,467,997</u>
	 \$ <u><u>14,215,003</u></u>	 \$ <u><u>15,464,509</u></u>

LIABILITIES AND MEMBERS' EQUITY	<u>2016</u>	<u>2015</u>
Current Liabilities:		
Current portion of long-term debt	\$ 656,000	\$ 614,333
Current portion of capital lease obligation	44,718	41,806
Accounts payable	821,724	1,252,242
Bank overdraft	23,493	-
Advance billing and customer deposits	433,551	465,838
Income taxes payable	462	462
Accrued expenses	<u>672,389</u>	<u>495,164</u>
Total Current Liabilities	<u>2,652,337</u>	<u>2,869,845</u>
Long-Term Liabilities:		
Long-term debt	6,609,209	7,260,815
Capital lease obligation	24,726	69,444
Other long-term liabilities	<u>48,500</u>	<u>54,280</u>
Total Long-Term Liabilities	<u>6,682,435</u>	<u>7,384,539</u>
Members' Equity:		
Controlling Interest		
Memberships and other equities	67,724	76,334
Patronage capital	<u>4,845,740</u>	<u>5,166,671</u>
Total Controlling Interest	4,913,464	5,243,005
Noncontrolling Interest	<u>(33,233)</u>	<u>(32,880)</u>
Total Members' Equity	<u>4,880,231</u>	<u>5,210,125</u>
	<u>\$ 14,215,003</u>	<u>\$ 15,464,509</u>

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY**Consolidated Statements of Operations**

Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues:		
Local network services	\$ 1,223,938	\$ 1,247,272
Network access services	2,490,342	2,467,833
Miscellaneous operating	333,570	372,957
Internet	1,663,146	1,607,620
CLEC	186,559	260,852
Long distance	86,323	98,658
Wireless	159,699	180,201
Cable television	1,549,577	1,583,626
Other non-regulated revenues	35,037	37,369
Total Operating Revenues	7,728,191	7,856,388
Operating Expenses:		
Plant specific	822,623	1,129,984
Plant nonspecific	438,658	388,910
Customer	584,981	702,072
Corporate	1,217,944	1,115,808
Depreciation and amortization	799,902	847,274
Other taxes	126,583	155,378
Internet	740,984	665,733
CLEC	476,697	432,448
Long distance	80,397	150,239
Wireless	173,372	193,500
Cable television	1,891,057	1,869,399
Other non-regulated expenses	282,419	298,877
Total Operating Expenses	7,635,617	7,949,622
Operating Income (Loss)	92,574	(93,234)
Other Income (Expense):		
Interest and dividend income	8,837	38,568
Other income, net	-	3,063
Interest expense	(423,503)	(521,448)
Income tax expense	(300)	(300)
Total Other Expense, net	(414,966)	(480,117)
Loss Before Noncontrolling Interest	(322,392)	(573,351)
Noncontrolling Interest	353	(1,520)
Net Loss	\$ (322,039)	\$ (574,871)

See accompanying notes to consolidated financial statements.

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY**Consolidated Statements of Comprehensive Loss**Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Net Loss	\$ (322,039)	\$ (574,871)
Other Comprehensive Income:		
Unrealized loss on marketable securities	-	(38)
Realized loss due to other-than-temporary decline in marketable securities	<u>-</u>	<u>25,516</u>
Other comprehensive income	<u>-</u>	<u>25,478</u>
Total Comprehensive Loss	\$ <u><u>(322,039)</u></u>	\$ <u><u>(549,393)</u></u>

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY
Consolidated Statements of Changes in Members' Equity
Years Ended December 31, 2016 and 2015

	Member- ships and other Equities	Patronage Capital	Accumulated Other Comprehensive Loss	Total Controlling Interest	Non- Controlling Interest	Total
Balance, December 31, 2014	\$ 86,822	\$ 5,741,597	\$ (25,478)	\$ 5,802,941	\$ (34,400)	\$ 5,768,541
Net margin (loss)	-	(574,871)	-	(574,871)	1,520	(573,351)
Unrealized loss on marketable securities	-	-	(38)	(38)	-	(38)
Realized loss due to other-than-temporary decline in marketable securities	-	-	25,516	25,516	-	25,516
Net membership increase	279	-	-	279	-	279
Other capital credit activity, net	<u>(10,767)</u>	<u>(55)</u>	<u>-</u>	<u>(10,822)</u>	<u>-</u>	<u>(10,822)</u>
Balance, December 31, 2015	76,334	5,166,671	-	5,243,005	(32,880)	5,210,125
Net loss	-	(322,039)	-	(322,039)	(353)	(322,392)
Net membership increase	268	-	-	268	-	268
Other capital credit activity, net	<u>(8,878)</u>	<u>1,108</u>	<u>-</u>	<u>(7,770)</u>	<u>-</u>	<u>(7,770)</u>
Balance, December 31, 2016	<u>\$ 67,724</u>	<u>\$ 4,845,740</u>	<u>\$ -</u>	<u>\$ 4,913,464</u>	<u>\$ (33,233)</u>	<u>\$ 4,880,231</u>

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY**Consolidated Statements of Cash Flows**

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Net loss	\$ (322,039)	\$ (574,871)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	799,902	847,274
Non-regulated depreciation	896,814	830,725
(Gain) Loss attributable to noncontrolling interest	(353)	1,520
Noncash patronage	(4,696)	(35,305)
Loss on investments	-	25,553
Changes in assets and liabilities:		
Accounts receivable	49,394	164,440
Materials and supplies	(27,762)	44,010
Prepaid expenses	6,187	(4,234)
Accounts payable	(430,518)	566,636
Bank overdraft	23,493	(204,525)
Accrued expenses	177,225	(20,345)
Income taxes payable	-	(251)
Advanced billing and customer deposits	(32,287)	13,066
Other long-term liabilities	<u>(5,780)</u>	<u>(7,185)</u>
Net Cash Provided by Operating Activities	<u>1,129,580</u>	<u>1,646,508</u>
Cash Flows from Investing Activities:		
Capital expenditures	(614,562)	(493,822)
Proceeds from investments	<u>81,394</u>	<u>146,538</u>
Net Cash Used by Investing Activities	\$ <u>(533,168)</u>	\$ <u>(347,284)</u>

	<u>2016</u>	<u>2015</u>
Cash Flows from Financing Activities:		
Principal payments on long-term debt	\$ (620,865)	\$ (1,202,473)
Proceeds from long-term debt	10,926	-
Principal payments on capital lease obligation	(41,806)	(39,114)
Change in memberships	268	279
Patronage capital paid, net	<u>(7,770)</u>	<u>(10,822)</u>
Net Cash Used by Financing Activities	<u>(659,247)</u>	<u>(1,252,130)</u>
Net Increase (Decrease) in Cash	(62,835)	47,094
Cash, beginning	<u>70,250</u>	<u>23,156</u>
Cash, ending	\$ <u><u>7,415</u></u>	\$ <u><u>70,250</u></u>
Cash Paid During the Year for Interest	\$ <u><u>424,629</u></u>	\$ <u><u>522,618</u></u>
Cash Paid During the Year for Taxes	\$ <u><u>300</u></u>	\$ <u><u>300</u></u>
Non-Cash Financing Activity: Refinance Line of Credit into Long-Term Debt, net of Subordinated Capital Certificates	\$ <u><u>-</u></u>	\$ <u><u>1,258,996</u></u>

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY and SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Beaver Creek Cooperative Telephone Company (the Company) is an Oregon cooperative corporation providing telecommunications, cable television, wireless telephone, and broadband services to its members on a cooperative basis. The service area is in the general vicinity of Beavercreek and Oregon City, Oregon.

Basis of Consolidation

The consolidated financial statements of the Company include the accounts of the Company and its wholly-owned subsidiary, Telsystems West, Inc. (TWI). TWI is the majority shareholder of MegAvail, Inc. (91.18% ownership). All material intercompany transactions and balances have been eliminated in consolidation.

The noncontrolling interest amount shown in the consolidated financial statements represents the ownership of noncontrolling shareholders.

Basis of Accounting

The Company's consolidated financial statements are prepared on the accrual basis of accounting in conformity with the accounting principles generally accepted in the United States of America applicable to regulated enterprises.

Regulation

The Company is subject to limited regulation by the Public Utility Commission of Oregon (PUC) and the Federal Communications Commission (FCC). The Company maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the FCC, and adopted by the PUC. As a result, the Company's application of accounting principles generally accepted in the United States of America differs in certain respects from the application by non-regulated entities. Such differences primarily concern the time at which certain items enter into the determination of net margin.

Regulatory and legislative actions, as well as future regulations, could have a significant impact on the Company's future operations and financial condition. See Note 1, National Broadband Plan and FCC Order.

Estimates

The Company uses estimates and assumptions in preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash

The Company maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor per bank. At December 31, 2016 and 2015 the Company did not have any funds in any one bank that exceeded the federally insured limit.

The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Accounts Receivable

The Company extends credit to its customers. An allowance for doubtful accounts is maintained, based upon management's review of the year-end accounts receivable aging and past credit and collections history. Receivables are written off when the Company determines an account is uncollectible. Past due status is determined based on the age of the past due accounts.

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY and SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Fair Value of Financial Instruments

The Company's financial instruments, none of which are held for trading purposes, include cash, receivables, accounts payable, capital lease obligation, and notes payable. The Company estimates that the fair value of all of these non-derivative financial instruments at December 31, 2016 and 2015 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying consolidated balance sheets.

Materials and Supplies

Inventory held for resale and telecommunication materials and supplies are stated at the lower of average cost or market. Cost is determined principally by the average cost method.

Investments

Investments in which the Company holds a 20%-50% interest are accounted for on the equity method. Investments accounted for on the equity method are recorded at cost and adjusted for the Company's share of income or loss. Investments in which the Company holds less than a 20% interest are recorded at cost and income is recorded when dividends are received.

Property, Plant, and Equipment

Telecommunications plant in service and under construction is stated at cost, including estimated overhead expense. Depreciation is calculated on a straight-line basis over the estimated life of the classes of property and equipment in accordance with rates consistent with industry standards. Depreciation rates range from 2% to 33.3%. Costs of plant retired are eliminated from telecommunications plant accounts and such costs plus removal expenses, less salvage, are charged to accumulated depreciation in accordance with industry practice.

Non-regulated equipment in service and under construction and TWI's property and equipment are stated at cost. Depreciation is calculated on a straight-line basis over the estimated life of the classes of equipment. Depreciation rates range from 2% to 14.3%. Maintenance, repairs, and replacements are charged to expense as incurred. When property or equipment is sold or otherwise disposed of, the asset account and the related accumulated depreciation accounts are relieved, and any gain or loss is included in operations.

Patronage Allocations

The net margin or loss of the Company is allocated to its members annually, in proportion to the patron's annual charges for eligible services.

Comprehensive Loss

The Company reports comprehensive loss. The purpose of reporting comprehensive loss is to report all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with members in their capacity as members.

Income Tax

The Company has been granted an exemption from Federal income taxes, except for "unrelated" business income, under Section 501(c)(12) of the Internal Revenue Code. The Company is also exempt from state income taxes. However, in any year for which greater than 15% of gross revenue is derived from nonmember services, the Company becomes a taxable cooperative. The Company was exempt from income taxes in 2016 and 2015. Federal and state taxes payable by taxable cooperatives are computed differently from taxes payable by other corporations, primarily because cooperatives are allowed to deduct margins allocated or paid to patrons within 8 ½ months after the end of each taxable year. Telsystems West, Inc. and its subsidiary are taxable corporations and file separate tax returns.

The Company follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Company recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There were no amounts accrued in the consolidated financial statements related to uncertain tax positions.

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY and SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Revenue Recognition

The Company recognizes revenues when earned regardless of the period in which they are billed.

Monthly service fees derived from local telephone, flat rate toll (long distance), cable television and broadband services are billed in advance. Advance billings are recorded as a liability and subsequently transferred to income in the period earned. Access charges (see Note 1, Network Access Revenue), long distance and other revenues based on usage are billed in arrears.

Network Access Revenues

Network access revenue is received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Company, charge the long-distance carrier for access and interconnection to local facilities. The Company has elected to file access tariffs through the National Exchange Carriers Association (NECA) and directly with the PUC for these charges. These access tariffs are subject to approval by the FCC for interstate charges and the PUC for intrastate charges.

When network access revenues have been received pursuant to the settlement and access agreements above, they are then either placed into a common pooling arrangement with other exchange carriers for redistribution or kept by the Company. The redistributions are made according to formulas established by the governing boards of the pools and are generally based upon expenses incurred and investments maintained.

The Company participates in various pooling arrangements with NECA.

Settlement, access, and pool distribution revenues are recorded when the amounts become determinable. Related expenses are recorded when incurred. Subsequent true-ups and retroactive adjustments, which are generally allowed for a period of 24 months, are recorded in the year in which such adjustments become determinable, based upon studies prepared by outside consultants.

In 2016, the Company received \$2,040,652 (\$1,938,472 in 2015) in interstate access revenues administered through the NECA Pools.

The Company receives funding from the Oregon Universal Service Fund (OUSF). These support revenues are included in the network access revenues in the accompanying consolidated financial statements. In 2016, the Company recognized \$234,911 from the OUSF (\$296,869 in 2015). Funding levels for the Oregon Universal Service Fund were determined in accordance with PUC Order 13-162. In March 2016, the PUC issued order 16-093 related to OUSF. The order is for a 5 year term beginning January 1, 2017 and calls for annual reductions to the OUSF that will result in an overall reduction of not less than 15.2% over the 5 year term for rural companies. In addition rural companies will be subject to a re-allocation process over the term of the order but no company can have its support reduced by more than 20% over this period as a result of this process. The full impact of the order cannot be determined at this time.

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY and SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

Note 1 - Organization and Summary of Significant Accounting Policies, continued

National Broadband Plan and FCC Order

In 2010, the FCC issued the National Broadband Plan which outlined a long-term plan to increase broadband penetrations and services throughout the United States of America.

In 2011, as an initial response to the plan, the FCC approved Report and Order 11-161 (the Order), that began the process of reforming the universal service and Intercarrier Compensation (ICC) systems and adopts support for broadband-capable networks as an express universal service principle. The Order further created the Connect America Fund (CAF) which will ultimately replace all existing high-cost support mechanisms and help facilitate ICC reforms.

The key provisions of the Order included capping the federal universal service fund (USF), placing limitations on capital and operating expenditures (subsequently eliminated in 2014 by an Order for Reconsideration issued by the FCC), establishing local rate benchmarks, capping monthly USF at \$250 per line, 5% annual reduction of the frozen 2011 interstate switched access revenue requirement, the phase-out of local switching support to be replaced by the CAF to recover costs of switching services, a 9 year transition from the previous ICC system to bill and keep, and adoption of the Access Recovery Charge (ARC) to mitigate impacts of reduced ICC revenues. Implementation of this transition began July 1, 2012.

In 2016, the FCC issued Order 16-33, which provided the option for a voluntary election by rate-of-return carriers to receive model-based support under the Alternative Connect America Cost Model (A-CAM). On November 1, 2016, the Association did not elect to receive model based support under A-CAM. Carriers not electing A-CAM will continue to receive support based on their costs, however these legacy support mechanisms will be modified by Order 16-33.

The main changes for carriers remaining on legacy support are as follows:

- Interstate Common Line Support (ICLS) will be transitioned to the CAF – Broadband Line Support (CAF-BLS), which will now provide support for voice and voice – data lines, as well as broadband only lines. Additionally, the funding for overall high cost support will be limited to \$2 billion.
- The prescribed rate of return will be reduced by 0.25% annually starting July 1, 2016, effectively reducing the rate of return from 11.25% to 9.75% as of July 2021.
- Carriers will have broadband deployment obligations based on their current availability of 10/1 mbps broadband service in applicable study areas.
- Support will be phased out in census blocks if 85% or more of the locations in the census block are served by unsubsidized competitors offering 10/1 mbps broadband. Lost support will be phased out over 3 to 6 years depending on the severity of lost support.
- Limits capital and operating expenditures on a prospective basis as outlined in the Order.

The Company continues to monitor various effects and requirements of the Orders noted above. As of December 31, 2016 the Company is not subject to the \$250 per line support cap. Furthermore, for the period ended December 31, 2016 the impacts to the Company related to the 5% annual decline in switched access revenues, and the .25% reduction of the prescribed rate of return have not been significant.

The overall reform process will continue to take place in phases and will take several more years to implement. Furthermore, it is anticipated that the FCC will continue to issue Further Notices of Proposed Rulemaking and/or Orders for Reconsideration and continue to seek comments on various items. As a result, the ultimate outcome of these proceedings and their impact is uncertain at this time.

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY and SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Subsequent Events

The Company has evaluated subsequent events through April 10, 2017, which is the date the consolidated financial statements were available to be issued.

Note 2 - Investments

Investments consist of the following:

	2016	2015
NRTC Capital Credits	\$ 85,883	\$ 82,804
Associated Network Partners, Inc. (ANPI)	130,734	205,735
Consolidated Business Services, LLC (CBS)	85,000	85,000
Oregon Cable Group, LLC (OCG)	33,348	33,348
RTFC	530,912	535,688
	<u>\$ 865,877</u>	<u>\$ 942,575</u>

The Rural Telephone Finance Cooperative (RTFC) investment consists primarily of annual capital credit allocations that reflect the Company's contribution to the earnings of RTFC.

During 2016, the controlling interest of ANPI Holdings, Inc. was sold and they began the process of redeeming the preferred stock. As of December 31, 2016, 75% of the preferred stock has been redeemed and the Company received proceeds of \$75,001 from their investment in preferred stock. The remaining preferred stock in ANPI Holdings, Inc. is expected to be redeemed during 2017.

Effective September 1, 2012, the Company, along with two other telecommunication companies, formed Consolidated Business Services, LLC to consolidate various administrative functions. Services currently being provided to the companies include accounting, regulatory reporting, management services and human resources. All three companies have a one-third ownership interest and any net income or loss is distributed evenly to each company. The Company accounts for the investment using the equity method of accounting whereby the investment is recorded at cost and adjusted for the Company's share of income or loss. For the years ended December 31, 2016 and 2015, the Company did not contribute any additional amounts and no income or loss was allocated.

Note 3 - Property, Plant, and Equipment

Property, plant, and equipment, consist of the following at December 31:

	2016	2015
Telecommunications plant in service:		
Land	\$ 92,103	\$ 92,103
General support	5,778,752	6,051,011
Central office	4,895,998	4,811,896
Cable & wire facilities	9,487,319	9,299,854
Nonoperating plant	157,125	157,125
Under construction	291	9,058
Capital lease assets	167,988	167,988
	<u>\$ 20,579,576</u>	<u>\$ 20,589,035</u>

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY and SUBSIDIARY**Notes to Consolidated Financial Statements**Years Ended December 31, 2016 and 2015

Note 3 - Property, Plant, and Equipment, continued

Property, plant, and equipment, consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Non-regulated plant in service:		
General support	\$ 325,444	\$ 325,444
Headend equipment	2,208,933	2,181,027
Converter boxes	1,030,477	1,021,577
Cable and wire facilities	<u>18,388,628</u>	<u>18,149,353</u>
	<u>\$ 21,953,482</u>	<u>\$ 21,677,401</u>

Note 4 - Long Term Debt

Long-term debt is as follows as of December 31:

	<u>2016</u>	<u>2015</u>
Mortgage note payable to RTFC, with fixed interest rates of 5.00%, collateralized by substantially all real and personal property due in 2021	\$ 6,800,000	\$ 7,289,073
Note payable to Bank of the West, with a fixed interest rate of 6.5%, collateralized by substantially all real and personal property subordinate to RTFC, due in 2018	<u>465,209</u>	<u>586,075</u>
	7,265,209	7,875,148
Less current portion	<u>(656,000)</u>	<u>(614,333)</u>
	<u>\$ 6,609,209</u>	<u>\$ 7,260,815</u>

Future maturities of long-term debt are as follows:

2017	\$ 656,000
2018	809,209
2019	500,000
2020	500,000
2021	4,800,000

The debt agreement contains certain covenants that require the Company to maintain a specific ratio of debt service coverage (DSC) and they also must not incur capital expenditure in excess of \$525,000. For the year ended December 31, 2016, the Company met the DSC loan covenant, but exceeded the capital expenditure limit as they had expenditures in the amount of \$587,605. Therefore, a waiver from RTFC with respect to the Company's failure to meet the loan covenant as of December 31, 2016 was obtained.

In 2016, the Company refinanced their long-term debt and line of credit with RTFC into a new term loan with interest at a fixed rate of 5% due December 31, 2021. The refinance includes a total commitment of \$7,258,333 and will be paid in 58 equal payments of \$41,667 with the remainder due at maturity. The balance at December 31, 2015 included the existing RTFC long-term debt of \$6,030,078 and line of credit in the amount of \$1,969,986, which was off-set by the SCC's applied in the amount of \$710,990 as a result of the refinance.

During 2016 the Company received approval for a loan extension through March 2017 on their loan with Bank of the West. Subsequent to year end the Company received approval for an additional one year extension.

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY and SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

Note 5 - Operating Leases

The Company leases substantially all of its copiers and printers under various operating leases with five year or month-to-month terms. In addition, the Company leases various vehicles under 5 year terms. Total lease expense under all operating leases for the years ended December 31, 2016 and 2015 was \$84,692 and \$75,098, respectively. Minimum future amounts due under these leases as of December 31, 2016 are as follows:

2017	\$	94,347
2018		84,207
2019		14,517
2020		14,517
2021		6,662

Note 6 - Capital Leases

The Company is the lessee of various computers under capital lease expiring in 2018. The assets and related liabilities under capital lease are recorded at the fair value of the assets. The fair value of the assets included in property and equipment was \$167,988 at December 31, 2016 and 2015.

The assets under capital lease are being amortized over the term of the lease. Amortization expense amounted to \$41,997 for the years ended December 31, 2016 and 2015, which is included in depreciation and amortization on the consolidated statement of operations.

Minimum future lease payments under capital leases as of December 31 are:

2017	\$	48,002
2018		<u>25,242</u>
Total minimum future lease payments		73,244
Less amounts representing interest		<u>3,800</u>
Present value of future minimum lease payments		69,444
Less current portion		<u>44,718</u>
Long-term portion	\$	<u><u>24,726</u></u>

Note 7 - Income Taxes

The following is a summary of the significant components of the deferred tax assets and liabilities as of December 31:

	2016	2015
Deferred tax asset - net operating loss carryforward	\$ 117,000	\$ 126,000
Deferred tax asset - depreciation and amortization	<u>2,000</u>	<u>4,000</u>
Total deferred tax asset	119,000	130,000
Less valuation allowance	<u>(119,000)</u>	<u>(130,000)</u>
Net Deferred Tax Asset	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY and SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

Note 7 - Income Taxes, continued

In 2016 and 2015, a valuation allowance was recorded against the deferred tax assets because the Company was uncertain they would realize these benefits due to historical operating losses and the decision to dissolve the subsidiaries in the near future. The change in the valuation allowance for deferred tax assets was a decrease of \$11,000. MegAvail, Inc. as a result of insolvency lost all net operating loss carryforwards recorded prior to 2014. As of December 31, 2016, the Company had Federal net operating loss carryforwards which totaled approximately \$225,000 that expire 2028 through 2036 (approximately \$240,000 at December 31, 2015) and state net operating loss carryforwards of \$660,000 that expire from 2019 through 2031 (approximately \$674,000 at December 31, 2015).

Income tax expense consists of the following:

	2016	2015
Current payable	\$ 300	\$ 150
Under accrual	-	150
Income tax expense	\$ 300	\$ 300

Note 8 - Employee Savings Plan

The Company has a qualified defined contribution retirement plan that covers substantially all employees. Employees can contribute up to 100% of earned wages into the 401(k) plan up to the Internal Revenue Service annual maximum allowable dollar limitation for the year. The Company provides a 2% discretionary contribution and a 2 to 1 match of employee contributions up to 5% for a total contribution of 10%. Total Company's contributions were \$101,247 for 2016 (92,931 for 2015).

Note 9 - Post-Employment Benefits Other than Pensions

The Company's Post-Employment Benefit Plan (the Plan) is a single-employer defined benefit medical stipend plan administered by the Company. In 2007, the Plan provided for a monthly stipend benefit to eligible retired employees of the Company. Retirees were eligible for benefits, until age 65, if they retired from the Company after age 55 with at least twenty years of service. No stipend is paid for spouses, dependents, or surviving spouses of eligible retirees. The Plan is under the control of the Company and does not require funding of a trust. Accordingly, the Plan is not required to issue separate financial statements.

The Company determined that the Plan was not sustainable and elected to terminate it effective January 1, 2008. Those retirees receiving stipends at that date will continue until they attain age 65. In addition employees who began their employment prior to December 31, 1980 and who have worked for the Company for an uninterrupted period of not less than 30 years and subsequently retire prior to reaching age 65. The monthly benefit is based on the premium level at the date of retirement.

The Plan is funded by the Company on a pay-as-you-go basis. Employees and retirees do not contribute to the Plan. As of December 31, 2016, the amount accrued for post-employment benefits is \$56,350 (\$63,700 at December 31, 2015). For 2016 and 2015, stipend benefits paid for eligible retirees of the Company under the Plan were approximately \$9,420 and \$13,742, respectively. Post-retirement benefit payments in 2017 are expected to be approximately \$7,850.

Note 10 - Related Party Transactions

The Company entered into an agreement with Consolidated Business Services, LLC (CBS, LLC) in 2012 (Note 3) whereby CBS, LLC will provide accounting, regulatory reporting, management services, and human resource services for the Company. CBS, LLC provided services to the Company in the amount of \$323,296 in 2016 (\$478,680 in 2015). At December 31, 2016, there is \$122,782 payable to CBS, LLC for labor and expenses (\$96,737 at December 31, 2015).

SUPPLEMENTAL INFORMATION

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY

Consolidating Balance Sheets

December 31, 2016

	Beaver Creek Cooperative Telephone Company	Telsystems West, Inc.	Eliminations	Consolidated
ASSETS				
Current Assets:				
Cash	\$ 3,624	\$ 3,791	\$ -	\$ 7,415
Accounts receivable, less allowance for doubtful accounts of \$5,000	673,978	52,563	-	726,541
Intercompany receivable	-	28,845	(28,845)	-
Materials and supplies	148,874	-	-	148,874
Prepaid expenses	79,253	-	-	79,253
Marketable securities	-	-	-	-
Total Current Assets	905,729	85,199	(28,845)	962,083
Other Assets and Investments:				
Investments	735,143	130,734	-	865,877
Investment in subsidiary	188,535	-	(188,535)	-
Other assets	-	800	-	800
Total Other Assets and Investments	923,678	131,534	(188,535)	866,677
Property, Plant, and Equipment:				
Regulated plant in service	20,579,576	-	-	20,579,576
Non-regulated plant in service	21,661,766	291,716	-	21,953,482
	42,241,342	291,716	-	42,533,058
Less accumulated depreciation	29,855,953	290,862	-	30,146,815
Property, Plant, and Equipment, net	12,385,389	854	-	12,386,243
	<u>\$ 14,214,796</u>	<u>\$ 217,587</u>	<u>\$ (217,380)</u>	<u>\$ 14,215,003</u>

	Beaver Creek Cooperative Telephone Company	Telsystems West, Inc.	Eliminations	Consolidated
LIABILITIES AND MEMBERS' EQUITY				
Current Liabilities:				
Current portion of long-term debt	\$ 656,000	\$ -	\$ -	\$ 656,000
Current portion of capital lease obligation	44,718	-	-	44,718
Accounts payable	759,901	61,823	-	821,724
Intercompany payable	28,845	-	(28,845)	-
Bank overdraft	23,493	-	-	23,493
Advance billing and customer deposits	433,551	-	-	433,551
Income taxes payable	-	462	-	462
Accrued expenses	672,389	-	-	672,389
Total Current Liabilities	2,618,897	62,285	(28,845)	2,652,337
Long-Term Liabilities:				
Long-term debt	6,609,209	-	-	6,609,209
Capital lease obligation	24,726	-	-	24,726
Other long-term liabilities	48,500	-	-	48,500
Total Long-Term Liabilities	6,682,435	-	-	6,682,435
Members' Equity:				
Controlling Interest				
Memberships and other capital	67,724	468,000	(468,000)	67,724
Patronage capital	4,845,740	(279,465)	279,465	4,845,740
Total Controlling Interest	4,913,464	188,535	(188,535)	4,913,464
Noncontrolling Interest:	-	(33,233)	-	(33,233)
Total Members' Equity	4,913,464	155,302	(188,535)	4,880,231
	<u>\$ 14,214,796</u>	<u>\$ 217,587</u>	<u>\$ (217,380)</u>	<u>\$ 14,215,003</u>

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY

Consolidating Statements of Operations

Year Ended December 31, 2016

Schedule II

	Beaver Creek Cooperative Telephone	Telsystems West, Inc.	Eliminations	Consolidated
Operating Revenues:				
Local network services	\$ 1,223,938	\$ -	\$ -	\$ 1,223,938
Network access services	2,490,342	-	-	2,490,342
Miscellaneous operating	333,570	-	-	333,570
Internet	1,663,146	-	-	1,663,146
CLEC	186,559	-	-	186,559
Long distance	86,323	-	-	86,323
Wireless	159,699	-	-	159,699
Cable television	1,549,577	-	-	1,549,577
Other non-regulated revenues	35,037	-	-	35,037
Total Operating Revenues	7,728,191	-	-	7,728,191
Operating Expenses:				
Plant specific	822,623	-	-	822,623
Plant nonspecific	438,658	-	-	438,658
Customer	584,981	-	-	584,981
Corporate	1,211,554	6,390	-	1,217,944
Depreciation and amortization	798,827	1,075	-	799,902
Other taxes	126,583	-	-	126,583
Internet	740,984	-	-	740,984
CLEC	476,697	-	-	476,697
Long distance	80,397	-	-	80,397
Wireless	173,372	-	-	173,372
Cable television	1,891,057	-	-	1,891,057
Other non-regulated expenses	282,419	-	-	282,419
Total Operating Expenses	7,628,152	7,465	-	7,635,617
Operating Income (Loss)	100,039	(7,465)	-	92,574
Other Income (Expense)				
Interest and dividend income	8,837	-	-	8,837
Loss from subsidiary	(7,412)	-	7,412	-
Interest expense	(423,503)	-	-	(423,503)
Income tax expense	-	(300)	-	(300)
Total Other Expense, net	(422,078)	(300)	7,412	(414,966)
Loss Before Noncontrolling Interest	(322,039)	(7,765)	7,412	(322,392)
Noncontrolling Interest	-	353	-	353
Net Loss	\$ (322,039)	\$ (7,412)	\$ 7,412	\$ (322,039)

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY

Consolidating Statements of Cash Flows

Year Ended December 31, 2016

	Beaver Creek Cooperative Telephone Company	Telsystems West, Inc.	Eliminations	Consolidated
Cash Flows from Operating Activities:				
Net loss	\$ (322,039)	\$ (7,412)	\$ 7,412	\$ (322,039)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:				
Depreciation and amortization	798,827	1,075	-	799,902
Non-regulated depreciation	896,814	-	-	896,814
Gain attributable to noncontrolling interest	-	(353)	-	(353)
Loss from subsidiary	7,412	-	(7,412)	-
Noncash patronage	(4,696)	-	-	(4,696)
Changes in assets and liabilities:				
Accounts receivable	41,625	7,769	-	49,394
Intercompany receivable	9,117	(28,845)	19,728	-
Material and supplies	(27,762)	-	-	(27,762)
Prepaid expenses	6,187	-	-	6,187
Accounts payable	(430,518)	-	-	(430,518)
Bank overdraft	23,493	-	-	23,493
Intercompany payable	28,845	(9,117)	(19,728)	-
Accrued expenses	177,225	-	-	177,225
Advance billing and customer deposits	(32,287)	-	-	(32,287)
Other long-term liabilities	(5,780)	-	-	(5,780)
Net Cash Provided (Used) by Operating Activities	1,166,463	(36,883)	-	1,129,580
Cash Flows from Investing Activities:				
Capital expenditures	(614,562)	-	-	(614,562)
Proceeds from investments	6,393	75,001	-	81,394
Net Cash Provided (Used) by Investing Activities	\$ (608,169)	\$ 75,001	\$ -	\$ (533,168)

	Beaver Creek Cooperative Telephone Company	Telsystems West, Inc.	Eliminations	Consolidated
Cash Flows from Financing Activities:				
Principal payments on long-term debt	\$ (620,865)	\$ -	\$ -	\$ (620,865)
Proceeds from long-term debt	10,926	-	-	10,926
Payments of dividends	-	(37,000)	37,000	-
Proceeds from dividends	37,000	-	(37,000)	-
Principal payments on capital lease obligation	(41,806)	-	-	(41,806)
Change in memberships	268	-	-	268
Patronage capital paid, net	(7,770)	-	-	(7,770)
Net Cash Used				
by Financing Activities	(622,247)	(37,000)	-	(659,247)
Net Increase (Decrease) in Cash	(63,953)	1,118	-	(62,835)
Cash, beginning	67,577	2,673	-	70,250
Cash, ending	\$ 3,624	\$ 3,791	\$ -	\$ 7,415
Cash Paid During the Year for Interest	\$ 424,629	\$ -	\$ -	\$ 424,629
Cash Paid During the Year for Taxes	\$ -	\$ 300	\$ -	\$ 300